Fiscal Note 2011 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0300	**Title:**	Revise medical savings account laws
Primary Sponsor:	Ingraham, Pat	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($31,894)	($54,390)	($72,142)	($87,877)
Net Impact-General Fund Balance:	($31,894)	($54,390)	($72,142)	($87,877)

Description of fiscal impact: This bill increases the maximum amount that can be deducted from state taxable income by an employee or account holder depositing income to a medical savings account or MSA. The current maximum is $3,000 per year per taxpayer. The proposed bill increases the maximum deductible MSA deposit by $500 per year starting with tax year 2009 going through tax year 2017 where the cap will be $7,500 per taxpayer. The cap remains at $7,500 per taxpayer in the years thereafter. The estimated decrease in general fund revenue is approximately $32,000 in FY 2010, increasing to over $88,000 in FY 2013. The reduction in revenue will continue to increase in future years as the cap is increased.

FISCAL ANALYSIS

Assumptions:

1. This bill proposes to increase the amount that an employee or account holder may exclude from income in one year by depositing income in a medical savings account (MSA). The bill proposes to increase the current limit from $3,000 to $3,500 in tax year 2009, $4,000 in tax year 2010, $4,500 in tax year 2011, and $5,000 in tax year 2012. The maximum deductible amounts continue to increase by $500 each year, reaching $7,500 in tax year 2017 and subsequent years.
2. Under current Montana law, residents or employers may make deposits to a medical savings account for themselves or their dependents and can exclude up to $3,000 from Montana taxable income or $6,000 if married, filing jointly. Amounts deposited over the $3,000 limit (or $6,000, filing jointly) can be excluded

from state taxable income in subsequent years. The interest earned on an MSA account is also excluded from state taxation (15-61-202, MCA).

3. In the most recent year for which data is available, tax year 2007, 7,457 full year resident taxpayers claimed $16,637,763 in medical care account exempt deposits on their tax returns.
4. All of the returns where taxpayers claimed deductions for medical care savings accounts deposits were extracted from the master database of resident taxpayer returns and placed in their own dataset. That dataset was used to calculate the impact of the increase in the existing deduction limit in order to estimate the reduction in tax due to the increase in the maximum.
5. For purposes of this fiscal note, those taxpayers who make deposits to an MSA that are below the cap are assumed to not be affected by this legislation.
6. Taxpayers who make deposits to an MSA which are at or above the $3,000 limit ($6,000 for married filing jointly) are assumed to be affected by the increase in the deductibility limit. On the TY 2007 income tax returns, 2,915 taxpayers claimed deductions for deposits to MSAs that were at or above the limit. These taxpayers claimed a total of $10,158,140 in deductions for MSAs.
7. If the average deduction for these taxpayers at the cap is assumed to increase to $3,250 (half of the increase in the cap) then the increase in total deductions would be $446,610 over what was claimed on TY 2007 taxpayer returns. Increasing the average deduction by half the increase in the cap is the same as assuming that half of the taxpayers at the cap increased their deposits to their MSA up to the new cap and other half did not change their deposits.
8. In the official revenue estimate for personal income tax, the growth rate for medical savings accounts is 13.69% for tax years 2008 through 2011. Applying this growth rate to the $446,610 in estimated increased deductions yields $507,751 in TY 2008, $577,262 in TY 2009, $656,289 in TY 2010 and $746,135 in TY 2011. The TY 2012 increased deductions are assumed to also grow at 13.69% over the prior year to $848,281.
9. The cap on MSA deductions that can be claimed on the Montana tax form increases by $500 in each year after TY 2009 through TY 2017 when it reaches $7,500. For these future years with cap increases, the same assumption as described in assumption 8 is used. Of those taxpayers who are at the cap, half will increase their MSA contribution up to new cap and half will remain at the existing cap.
10. The average marginal rate for all resident taxpayers based on tax year 2007 returns is 5.525%. Therefore, for each extra dollar of taxable income, a taxpayer pays $0.05525 (slightly more than 5.5 cents) in state income tax revenue. Conversely, for each dollar that taxable income is reduced, state income tax revenue is reduced by about 5.5 cents. The following table provides a summary of the estimated increase in deductions due to the increases in the cap, and the corresponding reduction in state income tax revenue:

Tax Year	Additional Deductions $3500 cap	Additional Deductions $4000 cap	Additional Deductions $4500 cap	Additional Deductions $5000 cap	Total Deductions	Reduction in Tax Revenue
2009	$577,262	-	-	-	$577,262	$31,894
2010	$656,289	$328,145	-	-	$984,434	$54,390
2011	$746,135	$373,068	$186,534	-	$1,305,737	$72,142
2012	$848,281	$424,141	$212,070	$106,035	$1,590,527	$87,877

11. Income tax returns are filed after the tax year has closed, near the end of the next numbered fiscal year. Therefore the cost of the proposed deduction would be incurred in the following fiscal year, for instance a deduction claimed on a 2009 tax return would reduce state general fund revenue in FY 2010.
12. The Department of Revenue does not anticipate additional costs due to this bill as proposed.
13. This bill is effective upon passage and approval and applies retroactively to tax years beginning after December 31, 2008.

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
Revenues:				
General Fund (01)	($31,894)	($54,390)	($72,142)	($87,877)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($31,894)	($54,390)	($72,142)	($87,877)

Technical Notes:

1. The proposed changes to 15-61-202 (4) on line 11 and 12 of page 2 of the bill, both of which read "the amount allowed for each tax year" might be made more clear by instead saying "the maximum amount allowed for each tax year."

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*